

BELDING HOUSING COMMISSION
BELDING, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Belding Housing Commission	County
Fiscal Year End June 30, 2006	Opinion Date October 30, 2006	Date Audit Report Submitted to State December 18, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Controls and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	Zip 49686
		License Number 11050	

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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Belding Housing Commission
Belding, Michigan

I have audited the accompanying financial statements of the business-type activities of the Belding Housing Commission, Michigan, a component unit of the City of Belding, as of and for the year ended June 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Belding Housing Commission, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Belding Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated October 30, 2006, on my consideration of Belding Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on page 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that comprise Belding Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sam E. Vandell, CPA, PC

October 30, 2006

BELDING HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
June 30, 2006

Belding Housing Commission, created in December 1950, by the City of Belding under Ordinance #274, provides affordable housing to help meet the needs of the community's low-income population. As management of the housing commission, we offer readers this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the commission's financial statements.

Financial Highlights

The financial statements for Belding Housing Commission represent two programs. The first is owned housing, consisting of 140 units of public housing. The second is the capital fund program. Belding Housing Commission had total revenues of \$572,080 that includes \$377,682 in rental payments, \$172,557 in federal assistance, and \$21,841 in interest and other income. Total operating expenses were \$609,494 and included \$235,290 in administrative expenses, \$197,639 in ordinary maintenance expenses, \$110,119 in utilities, and \$66,446 in insurance, PILOT, bad debts, casualty losses and tenant services expenses. Total expenses were \$795,044 and included \$184,055 in depreciation expense. Total revenues decreased by \$56,230, primarily a result of a decrease in federal assistance, and total expenses increased \$28,732, the result of increased utilities and depreciation expenses, for a net decrease from the prior year of \$84,962.

Net assets of the housing commission exceeded liabilities at June 30, 2006 by \$3,401,592. Total assets decreased by \$41,257 from the prior year, attributable to the increase in utility and depreciation expenses. Total assets of the housing commission were \$3,479,094, including \$228,788 in current assets and \$3,250,306 of net property, plant, and equipment assets. The housing commission had current liabilities of \$77,502; down from \$98,510 for the prior year.

The financial condition of the housing commission has not changed materially from the prior year, but Assets did decrease by \$41,257 from the prior year.

BELDING HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

June 30, 2006

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Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

Belding Housing Commission continues to investigate the possibility of bringing assisted-living type services into one of its elderly developments. Success has been gained in bringing recognition from local, state and federal levels for the need for these services. The decision to continue with the endeavor depends on success in identifying and obtaining a viable financial resource to support the services. The need for services to the frail elderly population is great, and continues to grow. Continued education in our communities and with elected officials about this need, and striving to develop financial partnerships at all levels will assist in allowing our population to age in place. It is our belief that these partnerships will provide humanitarian benefits for residents, and financial relief to the overly-burdened state and federal budgets.

Funding levels for operations and capital improvements are expected to continue to decline, in accordance with funding cuts at the federal level for these programs. Belding Housing Commission will continue to provide safe, affordable housing to eligible persons of low income, and will pursue capital improvements in accordance with our five-year and annual plan. Federal Fiscal Year 2006 Capital funds are designated to completing replacement of the existing maintenance garage, management improvements, and support for operations.

BELDING HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2006
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Questions and comments regarding this Management Discussion and Analysis may be directed to:

Sharon L. Carlson, Executive Director
41 Belhaven Street, Belding, MI 48809

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 228,788	\$ 295,485	\$ (66,697)
Property and equipment	<u>3,250,306</u>	<u>3,224,866</u>	<u>25,440</u>
Total assets	<u>\$3,479,094</u>	<u>\$3,520,351</u>	<u>\$ (41,257)</u>
Current liabilities	\$ 77,502	\$ 101,278	\$ (23,776)
Total liabilities	<u>77,502</u>	<u>101,278</u>	<u>(23,776)</u>
Net assets:			
Invested in capital assets	3,250,306	3,224,866	25,440
Unrestricted net assets	<u>151,286</u>	<u>194,207</u>	<u>(42,921)</u>
Total net assets	<u>3,401,592</u>	<u>3,419,073</u>	<u>(17,481)</u>
Total liabilities and net assets	<u>\$3,479,094</u>	<u>\$3,520,351</u>	<u>\$ (41,257)</u>

BELDING HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2006
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Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of activities of the Housing Commission for the years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 377,682	\$ 346,739	\$ 30,943
Total operating revenues	<u>377,682</u>	<u>346,739</u>	<u>30,943</u>
Operating expenses:			
Administration	235,290	264,655	(29,365)
Tenant services	8,293	5,290	3,003
Utilities	110,119	90,370	19,749
Ordinary maintenance and operation	197,639	178,125	19,514
General expenses	58,153	58,383	(230)
Casualty losses	1,495		1,495
Depreciation	<u>184,055</u>	<u>169,489</u>	<u>14,566</u>
Total operating expenses	<u>795,044</u>	<u>766,312</u>	<u>28,732</u>
Operating income(loss)	<u>(417,362)</u>	<u>(419,573)</u>	<u>2,211</u>
Non-operating revenue:			
Interest income	5,671	3,254	2,417
Other income	16,170	13,682	2,488
Gain on sale of fixed assets		30	(30)
Operating grants	<u>378,040</u>	<u>264,605</u>	<u>113,435</u>
Total nonoperating revenue	<u>399,881</u>	<u>281,571</u>	<u>118,310</u>
Change in Net Assets	<u><u>\$ (17,481)</u></u>	<u><u>\$ (138,002)</u></u>	<u><u>\$ 120,521</u></u>

FINANCIAL STATEMENTS

BELDING HOUSING COMMISSION
STATEMENT OF NET ASSETS
June 30, 2006
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ASSETS

Current Assets:	
Cash	\$ 5,922
Accounts receivable-dwelling rents	2,777
Investments-unrestricted	200,005
Prepaid expenses	<u>20,084</u>
Total Current Assets	<u>228,788</u>
Property and Equipment:	
Land	314,245
Buildings	5,299,243
Equipment	<u>352,094</u>
	5,965,582
Less: accumulated depreciation	<u>(2,715,276)</u>
Net Property and Equipment	<u>3,250,306</u>
Total Assets	<u>\$ 3,479,094</u>

See notes to financial statements

BELDING HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2006
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LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 36,757
Tenant security deposit liability	35,941
Deferred revenues	<u>4,804</u>

Total Current Liabilities	<u>77,502</u>
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Net Assets:

Invested in capital assets	3,250,306
Unrestricted net assets	<u>151,286</u>

Total Net Assets	<u>3,401,592</u>
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Total Liabilities and Net Assets	<u>\$ 3,479,094</u>
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See notes to financial statements

BELDING HOUSING COMMISSION
STATEMENT OF ACTIVITIES
 Year Ended June 30, 2006
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OPERATING REVENUES:	
Dwelling rent	\$ <u>377,682</u>
Total operating revenues	<u>377,682</u>
 OPERATING EXPENSES:	
Administration	235,290
Tenant services	8,293
Utilities	110,119
Ordinary maintenance and operation	197,639
General expenses	58,153
Casualty losses	1,495
Depreciation	<u>184,055</u>
Total operating expenses	<u>795,044</u>
 Operating income(loss)	 <u>(417,362)</u>
 NONOPERATING REVENUES:	
Investment interest income	5,671
Other income	16,170
Operating grants	<u>378,040</u>
Total nonoperating revenues	<u>399,881</u>
Change in net assets	(17,481)
Prior period adjustments, equity transfers and correction of errors	(2,768)
Net assets, beginning	<u>3,421,841</u>
Net assets, ending	<u>\$ 3,401,592</u>

See notes to financial statements

BELDING HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2006
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 377,811
Cash payments to other suppliers of goods and services	(313,507)
Cash payments to employees for services	(298,633)
Cash payments for in lieu of taxes	<u>(25,081)</u>
Net cash (used) by operating activities	<u>(259,410)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	1,462
Operating grants	378,040
Other revenue	<u>16,170</u>
Net cash provided by noncapital financing activities	<u>395,672</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Payments for capital acquisitions	<u>(209,495)</u>
Net cash (used) by capital and related financing activities	<u>(209,495)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments increased	(85,005)
Receipts of interest and dividends	<u>5,671</u>
Net cash (used) by investing activities	<u>(79,334)</u>

Net increase(decrease) in cash	(152,567)
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Cash, beginning	<u>158,489</u>
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Cash, ending	<u><u>\$ 5,922</u></u>
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BELDING HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2006
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RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ 5,922
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u><u>\$ 5,922</u></u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(417,362)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	184,055
Adjustments	(2,768)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(1,726)
Prepaid expenses	861
Increase (decrease) in liabilities:	
Accounts payable	(36,001)
Accrued wages/payroll taxes	10,582
Accrued payments in lieu of taxes	1,094
Deferred revenues	<u>1,855</u>
Net cash (used) by operating activities	<u><u>\$(259,410)</u></u>

See notes to financial statements

BELDING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Belding Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Belding Housing Commission is a component unit of the City of Belding, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Belding on April 3, 1951, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Belding Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3006, the Housing Commission constructed, maintains and operates 140 units of subsidized housing in the City of Belding, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,

equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Belding Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 - 10 years
Building improvements	10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts

expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave prorated to the date of separation. Vacation leave not taken by employees may not be accumulated to exceed the number of weeks earned in one year, unless otherwise approved by the Commission. Employees are encouraged to take annual vacation leave to the extent that it is earned.
- * Sick leave days are not accruable since the Commission provides short and long term disability insurance. Employees may be paid 50% for sick leave not taken during a calendar year at his/her regular rate of pay as an incentive to use sick leave judiciously.
- * Personal leave, each regular full-time employee shall be allowed two(2) personal leave days per year.

The amount of accumulated benefits at June 30, 2006, was minimal, and is not recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$5,722 and the bank balance was \$66,987 of which \$66,987 was covered by federal depository insurance. The Housing Commission has \$100 in petty cash and \$100 in a change fund.

Investments

The Housing Commission had the following investments at the following banks as of June 30, 2006:

Independent Bank-Certificate of deposit (#9019220727)	\$	50,000
Chemical Bank -Certificate of deposit (#6252021776)		75,000
Preferred		
Federal C.U. -Certificate of deposit (#234772)		<u>75,005</u>
		<u>\$ 200,005</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | | |
|----|----------------------------------|---|----------|
| 1. | U.S. Treasury Notes | - | 100%; or |
| 2. | U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. | Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 200
Carrying amount of deposits	5,722
Investments	<u>200,005</u>
Total	<u>\$ 205,927</u>
Cash and cash equivalents:	
Enterprise activities	\$ 267,192
Enterprise activities - checks written in excess of deposits	<u>(61,265)</u>
Total	<u>\$ 205,927</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2006, the receivables were \$2,777 with \$-0- estimated as uncollectible. Bad debt expense was \$2,912.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. There weren't any amounts due from HUD as of June 30, 2006.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund receivables or payables as of June 30, 2006.

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$205,483</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance 06/30/05</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 06/30/06</u>
Low Rent Program			
Land	\$ 314,245	\$	\$ 314,245
Buildings	5,165,694	133,549	5,299,243
Furniture, equip. & machinery - dwellings	79,659	1,297	80,956
Furniture, equip. & machinery - administration	<u>197,367</u>	<u>73,771</u>	<u>271,138</u>
	5,756,965	<u>\$ 208,617</u>	5,965,582
Less accumulated depreciation	(<u>2,532,099</u>)	<u>\$ (184,055)</u>	(<u>2,715,276</u>)
Total	<u>\$3,224,866</u>		<u>\$3,250,306</u>
Capital Fund Program			
Building improvements	<u>\$</u>	<u>\$</u>	<u>\$</u>
Combined Totals			<u>\$3,250,306</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 3,224,866
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	<u>25,440</u>
Balance, ending	<u>\$ 3,250,306</u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission contributes to the City of Belding Retirement Plan, a defined contribution plan administered by Massachusetts Mutual Insurance Company. The Housing Commission contributes an amount equal to 9% of each employee's earnings to the plan. Although no employee contributions are required, voluntary contributions of up to an additional 10% of earnings are allowed. The Housing Commission contributed a total of \$18,428.85. Further details are available from the City of Belding.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Correction of prior year accruals	<u><u>\$ (2,768)</u></u>
-----------------------------------	----------------------------

NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended June 30, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Condensed Statement of Net Assets		
Current assets	\$ 228,788	\$
Property and equipment	3,250,306	
Total assets	<u>\$ 3,479,094</u>	<u>\$</u>
Current liabilities	<u>\$ 77,502</u>	<u>\$</u>
Net assets:		
Invested in capital assets	3,250,306	
Unrestricted net assets	<u>151,286</u>	
Total net assets	<u>3,401,592</u>	
Total liabilities and net assets	<u>\$ 3,479,094</u>	<u>\$</u>
Condensed Statement of Activities		
Dwelling rents	\$ 377,682	\$
Depreciation	(184,055)	
Other operating expenses	<u>(610,989)</u>	
Operating(loss)	(417,362)	
Nonoperating revenues:		
Investment interest income	5,671	
Other income	16,170	
Operating transfers in (out)	205,483	(205,483)
Operating grants	<u>172,557</u>	<u>205,483</u>
Change in net assets	(17,481)	
Prior period adjustments, equity transfers and correction of errors	(2,768)	
Beginning net assets	<u>3,421,841</u>	
Ending net assets	<u>\$ 3,401,592</u>	<u>\$</u>
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	\$(259,410)	\$
Noncapital financing activities	395,672	
Capital and related financing activities	(209,495)	
Investing activities	<u>(79,334)</u>	
Net increase(decrease)	(152,567)	
Beginning cash and cash equivalents	<u>158,489</u>	
Ending cash and cash equivalents	<u>\$ 5,922</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

BELDING HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
June 30, 2006
=====

C-3006	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 5,922	\$
Accounts receivable-dwelling rents	2,777	
Investments-unrestricted	200,005	
Prepaid expenses	<u>20,084</u>	<u> </u>
Total current assets	<u>228,788</u>	<u> </u>

Property and equipment:

Land	314,245	
Buildings	5,299,243	
Equipment	<u>352,094</u>	<u> </u>
	5,965,582	
Less accumulated depreciation	<u>(2,715,276)</u>	<u> </u>

Net property and equipment	<u>3,250,306</u>	<u> </u>
----------------------------	------------------	-------------------

Total Assets	<u>\$3,479,094</u>	<u>\$ </u>
--------------	--------------------	---------------------

Totals

\$ 5,922
2,777
200,005
20,084

228,788

314,245
5,299,243
352,094
5,965,582
(2,715,276)

3,250,306

\$ 3,479,094

BELDING HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2006

=====

	C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 36,757	\$
Tenant security deposit liability	35,941	
Deferred revenues	<u>4,804</u>	<u> </u>
Total current liabilities	<u>77,502</u>	<u> </u>
 Total liabilities	 <u>77,502</u>	 <u> </u>
Net assets:		
Invested in capital assets	3,250,306	
Unrestricted net assets	<u>151,286</u>	<u> </u>
Total net assets	<u>3,401,592</u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$3,479,094</u></u>	<u><u>\$</u></u>

Totals

\$ 36,757
35,941
4,804

77,502

77,502

3,250,306
151,286

3,401,592

\$ 3,479,094

BELDING HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2006
=====

	C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 377,682	\$
Nondwelling rent		
	<u>377,682</u>	
Total operating revenues		
OPERATING EXPENSES:		
Administration	235,290	
Tenant services	8,293	
Utilities	110,119	
Ordinary maintenance and operation	197,639	
General expenses	58,153	
Casualty losses	1,495	
Depreciation	<u>184,055</u>	
	<u>795,044</u>	
Total operating expenses		
Operating income(loss)	<u>(417,362)</u>	
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	5,671	
Other income	16,170	
Operating grants	172,557	205,483
Operating transfers in (out)	<u>205,483</u>	<u>(205,483)</u>
	<u>399,881</u>	
Total nonoperating revenues (expenses)		
Change in net assets	(17,481)	
Prior period adjustments, equity transfers and correction of errors	(2,768)	
Net assets, beginning	<u>3,421,841</u>	
Net assets, ending	<u>\$3,401,592</u>	<u>\$</u>

Totals

\$ 377,682

377,682

235,290

8,293

110,119

197,639

58,153

1,495

184,055

795,044

(417,362)

5,671

16,170

378,040

399,881

(17,481)

(2,768)

3,421,841

\$ 3,401,592

BELDING HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended June 30, 2006

=====

	C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 377,811	\$
Cash payments to other suppliers of goods and services	(313,507)	
Cash payments to employees for services	(298,633)	
Cash payments for in lieu of taxes	<u>(25,081)</u>	
Net cash (used) by operating activities	<u>(259,410)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	1,462	
Operating grants	172,557	205,483
Operating transfers in (out)	205,483	(205,483)
Other revenue	<u>16,170</u>	
Net cash provided by noncapital financing activities	<u>395,672</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for capital acquisitions	<u>(209,495)</u>	
Net cash (used) by capital and related financing activities	<u>(209,495)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments increased	(85,005)	
Receipts of interest and dividends	<u>5,671</u>	
Net cash (used) by investing activities	<u>(79,334)</u>	
Net increase(decrease) in cash	(152,567)	
Cash, beginning	<u>158,489</u>	
Cash, ending	<u><u>\$ 5,922</u></u>	<u><u>\$</u></u>

Totals

\$ 377,811

(313,507)

(298,633)

(25,081)

(259,410)

1,462

378,040

16,170

395,672

(209,495)

(209,495)

(85,005)

5,671

(79,334)

(152,567)

158,489

\$ 5,922

BELDING HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2006

=====

C-3006	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF
CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$	5,922	\$
Restricted cash		<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	\$	<u>5,922</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (417,362)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	184,055	
Adjustments	(2,768)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(1,726)	
Prepaid expenses	861	
Increase (decrease) in liabilities:		
Accounts payable	(36,001)	
Accrued wages/payroll taxes	10,582	
Accrued payments in lieu of taxes	1,094	
Deferred revenues	<u>1,855</u>	
Net cash (used) by operating activities	<u>\$ (259,410)</u>	<u>\$</u>

Totals

\$ 5,922

\$ 5,922

\$ (417,362)

184,055
(2,768)

(1,726)
861

(36,001)
10,582

1,094
1,855

\$ (259,410)

BELDING HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor _____	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 172,557
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	<u>205,483</u>
	Total		<u>\$ 378,040</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

BELDING HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2006

=====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 5,922	\$
100	Total cash	<u>5,922</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	<u>2,777</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>2,777</u>	
	Current Investments:		
131	Investments-unrestricted	<u>200,005</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>20,084</u>	
150	Total current assets	<u>228,788</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	314,245	
162	Buildings	5,299,243	
163	Furn, equip & mach-dwellings	80,956	
164	Furn, equip & mach-admin.	271,138	
166	Accumulated depreciation	<u>(2,715,276)</u>	
160	Total fixed assets, net of accumulated depreciation	<u>3,250,306</u>	
180	Total noncurrent assets	<u>3,250,306</u>	
190	Total Assets	<u>\$3,479,094</u>	\$

Totals

\$ 5,922

5,922

2,777

2,777

200,005

20,084

228,788

314,245
5,299,243
80,956
271,138
(2,715,276)

3,250,306

3,250,306

\$ 3,479,094

BELDING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

=====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
321	Accrued wage/payroll taxes payable	\$ 10,582	\$
333	Accounts payable-other government	26,175	
341	Tenant security deposits	35,941	
342	Deferred revenues	<u>4,804</u>	
310	Total current liabilities	<u>77,502</u>	
300	Total liabilities	<u>77,502</u>	
	Equity:		
508.1	Invested in capital assets	<u>3,250,306</u>	
508	Total equity	3,250,306	
	Net Assets:		
512.1	Unrestricted net assets	<u>151,286</u>	
513	Total net assets	<u>3,401,592</u>	
600	Total Liabilities and Equity/Net Assets	<u>\$3,479,094</u>	<u>\$</u>

Totals

\$ 10,582

26,175

35,941

4,804

77,502

77,502

3,250,306

3,250,306

151,286

3,401,592

\$ 3,479,094

BELDING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended June 30, 2006

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 377,682	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>377,682</u>	
706	HUD PHA grants	172,557	205,483
711	Investment income-unrestricted	5,671	
715	Other revenue	<u>16,170</u>	
700	Total revenue	<u>572,080</u>	<u>205,483</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	124,670	
912	Auditing fees	4,100	
915	Employee benefit contributions-adm.	59,019	
916	Other operating-administrative	47,501	
	Tenant Services:		
921	Tenant services-salaries	3,744	
923	Employee benefit contributions	1,782	
924	Tenant services-other	2,767	
	Utilities:		
931	Water	28,487	
932	Electricity	17,778	
933	Gas	63,854	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	81,325	
942	Ordinary maint & oper-mat'ls & other	13,958	
943	Ordinary maint & oper-contract costs	63,681	
945	Employee benefit contributions- ordinary maintenance	38,675	
	General expenses:		
961	Insurance premiums	29,066	
963	Payments in lieu of taxes	26,175	
964	Bad debt-tenant rents	<u>2,912</u>	
969	Total operating expenses	<u>609,494</u>	
970	Excess operating revenue over operating expenses	<u>(37,414)</u>	<u>205,483</u>

<u>Totals</u>	
\$	377,682
	<u>377,682</u>
	378,040
	5,671
	<u>16,170</u>
	<u>777,563</u>

124,670
4,100
59,019
47,501

3,744
1,782
2,767

28,487
17,778
63,854

81,325
13,958
63,681

38,675

29,066
26,175
2,912

609,494

168,069

BELDING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2006
 =====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses-noncapitalized	1,495	
974	Depreciation expense	<u>184,055</u>	<u> </u>
	Total other expenses	<u>185,550</u>	<u> </u>
900	Total expenses	<u>795,044</u>	<u> </u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(222,964)	205,483
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>205,483</u>	<u>(205,483)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(17,481)	
1104	Prior period adjustments, equity transfers and correction of errors	(2,768)	
1103	Beginning Net Assets	<u>3,421,841</u>	<u> </u>
	Ending Net Assets	<u>\$ 3,401,592</u>	<u>\$ </u>

Totals

1,495
184,055

185,550

795,044

(17,481)

(17,481)

(2,768)

3,421,841

\$ 3,401,592

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Belding Housing Commission
Belding, Michigan

I have audited the financial statements of the business-type activities of the Belding Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated October 30, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated October 30, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Belding Housing Commission
Page Two

Compliance and Other Matters - Continued

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated October 30, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Vandell, CPA, PC

October 30, 2006

BELDING HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
MARCH 31, 2006

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries.

BELDING HOUSING COMMISSION

**INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS**

JUNE 30, 2006

BELDING HOUSING COMMISSION
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JUNE 30, 2006

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Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4
Adjusting Journal Entries	5

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Belding Housing Commission

I have audited the financial statements of the Belding Housing Commission ("Housing Commission") as of and for the year ended June 30, 2006, and have issued my report, thereon, dated October 30, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Sandy E. Sandell, CPA, PC

October 30, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Belding Housing Commission

I have audited the financial statements of the Belding Housing Commission ("Housing Commission") as of and for the year ended June 30, 2006, and have issued my report, thereon, dated October 30, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

October 30, 2006

BELDING HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
June 30, 2006
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Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Tenant Files

We selected at random seven(7) low rent tenant files to thoroughly test. The results are as follows:

Low Rent Program

There was 1 tenant file missing the annual Privacy Act Notice, 2 picture ID's were missing, 2 were missing social security card copies, and 1 declaration of citizenship.

The Housing Commission needs to concentrate on obtaining any missing documentation at the annual reexamination or interim reviews.

BELDING HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2006

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FDS
Line Number Account Name Debit Credit

LOW RENT PROGRAM:

There were no adjusting journal entries.